

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name		County
Fiscal Year End	Opinion Date		Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature	Printed Name		License Number	

LIVINGSTON COMMUNITY
WATER AUTHORITY

REPORT ON AUDIT OF
FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2006

LIVINGSTON COMMUNITY WATER AUTHORITY

WATER AUTHORITY BOARD

Mark St. Charles
William Palmer
H.E. "Bud" Prine
Cathy Doughty
Cindy Pine
Mike Bitondo
Susan Daugherty
Athena Willets

WATER AUTHORITY ATTORNEY

Neal D. Nielsen, P.C.

WATER AUTHORITY AUDITORS

Pfeffer, Hanniford & Palka
Certified Public Accountants

TABLE OF CONTENTS

	<u>PAGE NUMBER</u>
INDEPENDENT AUDITORS' REPORT	
MANAGEMENT DISCUSSION AND ANALYSIS	6
STATEMENT OF NET ASSETS	9
STATEMENT OF ACTIVITIES	10
STATEMENT OF CASH FLOWS	11
NOTES TO FINANCIAL STATEMENTS	13



PFEFFER ■ HANNIFORD ■ PALKA
Certified Public Accountants

John M. Pfeffer, C.P.A.
Patrick M. Hanniford, C.P.A.
Kenneth J. Palka, C.P.A.

Members:
AICPA Private Practice Companies Section
MACPA

225 E. Grand River - Suite 104
Brighton, Michigan 48116-1575
(810) 229-5550
FAX (810) 229-5578

May 25, 2007

Livingston Community Water Authority Board
10001 Silver Lake Road
Brighton, Michigan 48116

INDEPENDENT AUDITORS' REPORT

Honorable Board of Trustees:

We have audited the accompanying financial statements of the Livingston Community Water Authority as of and for the year ended December 31, 2006. These financial statements are the responsibility of the Authority Board. Our responsibility is to express an opinion on these financial statements based on the audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Livingston Community Water Authority, as of December 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year end in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 6 through 8 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation. However, we did not audit the information and express no opinion on it.

Pfeffer, Hanniford & Palka, P.C.

PFEFFER, HANNIFORD & PALKA
Certified Public Accountants

MANAGEMENT
DISCUSSION
AND
ANALYSIS

Management Discussion and Analysis December 31, 2006

Within this section of the Livingston Community Water Authority financial report, the Authority's management is providing a narrative discussion and analysis of the financial activities of the Authority for the fiscal year ended December 31, 2006. This narrative discusses and analyzes the activity within the context of the accompanying financial statements and disclosures following this section. The discussion focuses on the Authority's primary government and, unless otherwise noted, component units reported separately from the primary government are not included.

Overview of the Financial Statements

Management's Discussion and Analysis introduces the Authority's financial statements. The financial statements include all the statements required by the Governmental Accounting Standards Board and the notes to the financial statements. The Authority also includes in this report additional information to supplement the basic financial statements.

Government-wide Financial Statements

The Authority's annual reports include two Authority-wide financial statements. These statements provide both long-term and short-term information about the Authority's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The first of these statements is the Statement of Net Assets. This is the Authority-wide statement of position presenting information that includes all the Authority's assets and liabilities, with the difference reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority as a whole is improving or deteriorating. Evaluation of the overall health of the Authority may extend to various non-financial factors as well.

The second government-wide statement is the Statement of Activities which reports how the Authority's net assets changed during the current fiscal year. The design of this statement is to show the financial reliance of the Authority's distinct activities or functions on the revenues generated by the Authority.

The Authority's financial reporting includes all the funds of the Authority (primary government) and, additionally, organizations for which the Authority is accountable (component units). Since the Authority's sole purpose is to operate and manage a water system, only one fund is maintained. Thus, there are no fund financial statements prepared by the Authority.

Notes to the financial statements

The accompanying notes to the financial statements provide information essential to a full understanding of the financial statements.

Financial Analysis of the Authority as a Whole

The Authority's net assets at the end of the fiscal year were \$11,160,528. This is a \$477,275 increase over last year's net assets of \$10,683,253.

The following tables provide a summary of the Authority's financial activities and changes in net assets:

Summary of Net Assets

	<u>12/31/2005</u>	<u>12/31/2006</u>
Current and other assets	\$ 137,592	\$ 157,855
Restricted assets	260,392	267,199
Capital assets, net	<u>10,413,060</u>	<u>10,863,044</u>
 Total assets	 <u>10,811,044</u>	 <u>11,288,098</u>
 Accounts payable	 21,815	 21,594
Due to member townships	<u>105,976</u>	<u>105,976</u>
 Total liabilities	 <u>127,791</u>	 <u>127,570</u>
 Net assets:		
Invested in capital assets	10,413,060	10,863,044
Unrestricted	<u>270,193</u>	<u>297,484</u>
 Total net assets	 <u><u>\$ 10,683,253</u></u>	 <u><u>\$ 11,160,528</u></u>

Summary of Changes in Net Assets

	<u>12/31/2005</u>	<u>12/31/2006</u>
Operating revenues	\$ 166,998	\$ 167,589
Operating expenses	<u>387,986</u>	<u>398,661</u>
 Operating (loss)	 (220,988)	 (231,072)
 Non-operating revenues, net	 <u>1,772</u>	 <u>10,999</u>
 Change in net assets before capital contributions	 (219,216)	 (220,073)
 Capital contributions	 <u>122,329</u>	 <u>697,348</u>
 Change in net assets	 (96,887)	 477,275
 Beginning net assets	 <u>10,780,140</u>	 <u>10,683,253</u>
 Ending net assets	 <u><u>\$ 10,683,253</u></u>	 <u><u>\$ 11,160,528</u></u>

The Authority incurred a large operating loss \$(231,072) mostly as a result of depreciation expense of \$273,891.

Capital contributions totaled \$697,348 in the current fiscal year. This was from infrastructure constructed in Brighton Township to connect several businesses and availability of water for Country Club Annex to connect to the system in the near future.

Capital and Debt Administration

The Authority paid preliminary costs of \$11,479 for the treatment plant and \$15,048 in capital for the present system. The Authority also capitalized \$697,348 of infrastructure added to the system in Brighton Township (as mentioned above).

The Authority itself does not have any long-term debt. However, the individual member townships have issued debt over the years to finance their portion of capital contributions that were required to form the Authority.

Economic Factors and Next Year's Goals

The population in the service area is expected to grow over the next several years at a slower pace than prior years due to economic conditions. The Authority Board is hoping to have a treatment facility (iron removal only) in the next one to two years constructed. The process of building the Facility is currently underway.

Contacting the Authority's Financial Management

This report is designed to provide a general overview of the Authority's financial position and comply with finance-related regulations. If you have further questions about this report or request additional information, please contact the Authority at 10001 Silver Lake Road, Brighton, Michigan 48116.

LIVINGSTON COMMUNITY WATER AUTHORITY
STATEMENT OF NET ASSETS
DECEMBER 31, 2006

ASSETS

CURRENT ASSETS - UNRESTRICTED

Cash - operations	\$ 82,508
Accounts receivable - water	62,663
Accounts receivable - Green Oak Township	<u>12,684</u>

Total current assets- unrestricted		\$ 157,855
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CURRENT ASSETS (DESIGNATED)

Cash - construction	105,423
Cash - capital reserve	42,422
Cash - Saxony capital	<u>119,354</u>

Total current assets (designated)		267,199
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CAPITAL ASSETS

Land	298,233
Well, building and distribution system	11,426,809
Construction in progress - water treatment plant	<u>11,479</u>
	11,736,521
Less accumulated depreciation	<u>(873,477)</u>

Net capital assets		<u>10,863,044</u>
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Total assets		11,288,098
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LIABILITIES

CURRENT LIABILITIES

Accounts payable	21,594
Notes payable - member townships	<u>105,976</u>

Total current liabilities		<u>127,570</u>
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NET ASSETS

NET ASSETS

Invested in capital assets	10,863,044
Designated cash	267,199
Unrestricted	<u>30,285</u>

Total net assets		<u><u>\$ 11,160,528</u></u>
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The accompanying notes are an integral part of these financial statements.

LIVINGSTON COMMUNITY WATER AUTHORITY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2006

OPERATING REVENUES	
Billings - usage	\$ 167,589
OPERATING EXPENSES	
Accounting/audit fees	11,525
Administrative expenses	8,173
Capital purchases	3,620
Contract labor - operations	12,600
Deferred water charges	16,211
Depreciation expense	273,891
Engineering fees	2,032
Generator - fuel and service	1,204
Ground maintenance	280
Hydrant flushing and repairs	2,139
Insurance	11,319
Legal fees	423
Meter and MIU installations	375
Meters, supplies and chemicals	7,416
Miss Dig	4,508
Office expenses	502
Per - Diem fees	6,150
Permit fees	1,107
Repairs and maintenance - other	1,055
Repairs and maintenance - pumps	1,245
Repairs and maintenance - Saxony Capital repairs	8,250
Repairs and maintenance - water lines	2,593
Snow removal	2,500
Telephone	346
Utilities - electric	16,755
Utilities - gas	837
Water testing	1,605
Total operating expenses	398,661
Operating (loss)	(231,072)
OTHER INCOME	
Interest operations	1,248
Interest - reserves	5,872
Interest - construction	471
Other income	3,408
Total other income	10,999
Net (loss) before capital contributions	(220,073)
CAPITAL CONTRIBUTIONS	
Infrastructure - distribution in Brighton Township	697,348
Net income	477,275
NET ASSETS, Beginning of year	10,683,253
NET ASSETS, End of year	\$ 11,160,528

The accompanying notes are an integral part of these financial statements.

LIVINGSTON COMMUNITY WATER AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2006

CASH FLOWS FROM (USED-IN) OPERATING ACTIVITIES

Receipts from customers	\$ 161,176
Payments to vendors	<u>(109,870)</u>

Net cash from operating activities \$ 51,306

CASH FLOWS FROM (USED-IN) CAPITAL AND RELATED
FINANCING ACTIVITIES

Acquisition of property, plant and equipment (26,527)

CASH FLOWS FROM INVESTING ACTIVITIES

Interest on cash and cash equivalents 7,591

Increase in cash 32,370

CASH AT JANUARY 1, 2006 317,337

CASH AT DECEMBER 31, 2006 \$ 349,707

RECONCILIATION OF OPERATING (LOSS)
TO NET CASH FROM (USED-IN) OPERATING ACTIVITIES

Operating (loss) \$ (231,072)

Adjustments to reconcile operating income to net cash from
(used in) operating activities

Miscellaneous income	\$ 3,408
Depreciation	273,891
Changes in assets and liabilities	
(Increase) in accounts receivable - water	
billings/miscellaneous	(4,577)
Decrease in accounts receivable – Green Oak Township	9,877
(Decrease) in accounts payable	<u>(221)</u>

Total adjustments 282,378

Net cash from operating activities \$ 51,306

The accompanying notes are an integral part of these financial statements.

NOTES
TO
FINANCIAL
STATEMENTS

LIVINGSTON COMMUNITY WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

**NOTE 1 - DESCRIPTION OF ENTITY AND SUMMARY OF
SIGNIFICANT ACCOUNTING POLICIES**

Reporting Entity - The Livingston Community Water Authority was established on June 23, 2000, under Act No. 233, Public Acts of Michigan, 1955 as amended. The purpose of this Authority is to acquire, own, improve, enlarge, extend, operate, maintain, manage and administer water supply systems.

The financing of the water system has taken place at the township level. The related debt service funds are maintained in the financial statements of the three member townships.

The incorporating municipalities creating the Authority are Green Oak Township, Hamburg Township, and the Charter Township of Brighton, all in the County of Livingston. The Authority board is composed of two members from each of the incorporating municipalities who are voting members. The secretary and treasurer are non-voting members and are appointed by the six voting members.

Based on the criteria established by Government Accounting Standards Board (GASB) Statement Number 39, all funds, activities and agencies are included in the Authority's reporting entity.

Enterprise Funds - Enterprise funds are proprietary funds used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Basis Of Accounting - Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

A. SIGNIFICANT ACCOUNTING POLICIES

The accounts of the Authority are organized on the basis of a proprietary fund type, specifically an Enterprise Fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the Authority's assets, liabilities, net assets, revenues, and expenses. Enterprise funds account for activities:

1. that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or
2. that are required by laws or regulations that the activity's costs of providing service, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar reviews; or
3. that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

LIVINGSTON COMMUNITY WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 1 - DESCRIPTION OF ENTITY AND SUMMARY OF
SIGNIFICANT ACCOUNTING POLICIES (continued)

B. MEASUREMENT FOCUS

The financial activities of the Authority are accounted for on a flow of economic resources measurement focus, using the accrual basis of accounting. Under this method, all assets and liabilities associated with its operations are included on the statement of net assets; revenues are recorded when earned, and expenses are recorded when liabilities are incurred.

C. CASH AND CASH EQUIVALENTS

The Authority considers its deposits and restricted deposits and investments held with maturities of three months or less as cash equivalents.

D. CAPITAL ASSETS

Capital assets are stated at cost. Depreciation and amortization are computed using the straight-line method based on the estimated useful lives of the related assets, which range from 5 to 10 years for equipment and 10 to 40 years for buildings, structures, and improvements.

E. CONSTRUCTION-IN-PROGRESS

The costs of acquisition and construction of major plant and equipment is recorded as construction-in-progress. As facilities are accepted by the Authority and become operative, they are transferred to the facilities and improvements or machinery and equipment accounts and depreciated in accordance with the Authority's depreciation policies. Costs of construction projects that are discontinued are recorded as expense in the year in which the decision is made to discontinue such projects.

F. PREMIUM AND ISSUANCE COSTS

Bond discount, premium, and issuance costs are amortized over the term of the related bonds. No such bond discount/premiums or issuance costs were outstanding or issued during the year ended December 31, 2006.

G. INVENTORY

The Authority values inventory at cost. The Authority had no inventory as of December 31, 2006.

LIVINGSTON COMMUNITY WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 2 - DEPOSITS WITH FINANCIAL INSTITUTIONS

Michigan Compiled Laws, Section 129.91, authorizes the Authority to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The Authority's deposits are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3 risk disclosures for the Authority's deposits are as follows:

<u>Deposits</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured (FDIC)	\$ 200,000	\$ 200,000
Uninsured and uncollaterized	<u>149,707</u>	<u>157,232</u>
Total deposits	<u>\$ 349,707</u>	<u>\$ 357,232</u>

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable consist of regular quarterly billings and penalties. Each year, as of September 30, accounts receivable that are over 90 days old are placed on the tax roll for the applicable township. As of December 31, 2006, approximately \$26,977 of the outstanding \$62,663 accounts receivable went on the tax roll for collection. The Authority will receive the \$26,977 by March of 2007 through the tax collection process. The remaining accounts receivable of \$35,686 (\$62,663 - \$26,977) were under 90 days old as of December 31, 2006.

LIVINGSTON COMMUNITY WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 4 – CAPITAL ASSETS

	Balance 1/1/2006	Additions	Deletions	Balance 12/31/2006
Well, building and distribution system	\$ 10,714,413	\$ 712,396	\$	\$ 11,426,809
Land	298,233			298,233
Construction in progress - Plant		11,479		11,479
Total	11,012,646	723,875		11,736,521
Accumulated depreciation	(599,586)	(273,891)		(873,477)
Net book value	<u>\$ 10,413,060</u>	<u>\$ 449,984</u>	<u>\$</u>	<u>\$ 10,863,044</u>

There is no debt held by the Authority for these capital assets. Any debt related to the construction of the original distribution system is being held by the member Townships.

Depreciation expense related to the portion of property, plant and equipment is recorded as a current expense in these financial statements. The member townships have paid the Authority their respective portion of costs related to the construction of the water system. These payments to the Authority are recorded as revenues by the Authority in the year they are received.

Depreciation is recorded on the straight-line basis over the estimated useful life of the asset.

NOTE 5 - STATEMENT OF CASH FLOWS

Pursuant to Governmental Accounting Standards Board (GASB) statement number 9, a statement of cash flows is presented. The purpose of the statement of cash flows is to explain the change in cash and cash equivalents during the year.

Cash equivalents are defined as short-term, highly liquid investments with original maturities of three months or less. The direct method was utilized to present cash flows from operations. The following is a summary of beginning and ending cash and cash equivalents:

	12/31/2005	12/31/2006
Cash - undesignated	\$ 56,945	\$ 82,508
Cash - designated	260,392	267,199
Total cash	<u>\$ 317,337</u>	<u>\$ 349,707</u>

LIVINGSTON COMMUNITY WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 6 - ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 7 - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Authority.

NOTE 8 - SEGMENT INFORMATION

Selected financial information is as follows:

Operating revenue	\$ 167,589
Depreciation	\$ 273,891
Total assets	\$ 11,288,098
Total net assets	\$ 11,160,528
Change in net assets	\$ 477,275